

Message Text

CONFIDENTIAL

PAGE 01 STATE 231069

14-R
ORIGIN L-03

INFO OCT-01 ARA-06 ISO-00 EB-07 TRSE-00 SSO-00 /017 R

DRAFTED BY L:SMSCHWEBEL:CDJ
APPROVED BY ARA/AND - FJDEVINE
ARA/EP:AALLITTO
L/EB:SBOND (SUBS)
EB/ORF/FSE:DHART (SUBS)
TREASURY:RGOODMAN (SUBS)
EB/IFD/OIA - DSTEBBING

----- 062404

O 172128Z SEP 76
FM SECSTATE WASHDC
TO AMEMBASSY QUITO IMMEDIATE
INFO AMEMBASSY MANAGUA IMMEDIATE

C O N F I D E N T I A L STATE 231069

MANAGUA INFO FOR SHLAUDEMAM

E.O. 11652: GDS

TAGS: ENRG, PFOR, EC

SUBJECT: GOE GULF OIL DISPUTE

REF: (A) STATE 229886 (B) QUITO 6683

1. APPRECIATE SUBSTANCE AND SPEED OF REFTEL (B).

2. IN LIGHT OF IT, WE CONFERRED AT LENGTH WITH WYCHE
AND LUCAS BY TELEPHONE A.M. SEPT 17, MAKING FOLLOWING
POINTS. (A) IN PROPOSED LETTER TO SUPREME COUNCIL,
PARA 1 ON LAWSUIT DOES NOT MAKE CLEAR WITH WHOM A SETTLE-
MENT WILL BE REACHED WHILE PERHAPS SPECIFYING TOO MUCH
ABOUT ITS TERMS. (B) IN ANNEX 1, TO SPEAK OF "CREDITING"
ADVANCE PAYMENTS AGAINST AMOUNTS IN THE SPECIAL ACCOUNT
IS INFELICITOUS, SINCE THOSE ADVANCE PAYMENTS WILL IN
DUE COURSE BE PAYABLE TO THE GOE. (C) IN ANNEX 1, THE
CONFIDENTIAL

CONFIDENTIAL

PAGE 02 STATE 231069

PROVISION FOR "RESUMPTION BY ECUADORIAN GULF OF ITS

DEPOSITS AS THEY BECOME DUE" HOPEFULLY MEANS THAT GULF WILL STOP INCREASING THE SIZE OF THE SPECIAL ACCOUNT. IF SO, THIS IS A MAJOR CONCESSION TO GOE, FOR THE SPECIAL ACCOUNT WOULD REMAIN OF THE ORDER OF \$38 MILLION DUE THE GOE RATHER THAN INCREASE TO ABOUT \$60 MILLION DUE THE GOE.

IN THAT EVENT, THIS MAJOR CONCESSION SHOULD BE HIGHLIGHTED. (D) A WHOLLY FRESH ELEMENT MAY BE NEEDED TO BRING THE GOE TO THE CONFERENCE TABLE, NAMELY, PLACING THE BALANCE OF THE SPECIAL ACCOUNT IN AN ESCROW ACCOUNT. (E) GULF SHOULD TREAT THAT BALANCE AS COMMENSURATE WITH DEBTS OWED IT IN GULF'S VIEW ONLY AND EXPRESS WILLINGNESS TO NEGOTIATE WITH THE GOE OVER ITS DIFFERING APPRAISAL. (F) RE ANNEX 2, WE WONDERED WHETHER, AT THIS STAGE, IT WOULD NOT BE BEST TO OMIT IT SINCE IT WEAKENS EFFORT OF GULF TO GET TALKS GOING LOOKING TOWARDS ITS CONTINUED OPERATIONS IN ECUADOR.

3. IN SUPPORT OF FOREGOING, WE PASSED TO GULF'S WASHINGTON OFFICE AN UNMARKED PAPER WE READ OUT TO GULF, NOTING THAT IT IS AN INFORMAL AND TENTATIVE RENDERING OF SUGGESTIONS OF OFFICERS OF THE DEPT WHICH WAS NOT FULLY CLEARED AND NOT A FIRM OR ATTRIBUTABLE EXPRESSION OF DEPT VIEWS. IT FOLLOWS.

4. BEGIN TEXT:

"ANNEX NO. 1

"ON JUNE 21, 1976, ECUADORIAN GULF OIL COMPANY BEGAN PLACING AND CONTINUES TO PLACE ITS INCAUTATION DEPOSITS FOR PAST CRUDE OIL LIFTINGS AS THEY BECOME DUE INTO A SPECIAL ACCOUNT. THIS POSTPONEMENT OF DEPOSITS ANTICIPATES SETTLEMENT OF THE UNRESOLVED PROBLEMS BETWEEN THE GOVERNMENT AND ECUADORIAN GULF.

"AT THE REQUEST OF THE CONSEJO SUPREMO, DEPOSITS FOR ALL NEW LIFTINGS, BEGINNING WITH THE SHIP TSANGARIS ON AUGUST 25, 1976, HAVE BEEN MADE TO THE AGENT BANK OF THE CENTRAL BANK COINCIDENT WITH THE SAILING OF EACH CARGO. CONFIDENTIAL

CONFIDENTIAL

PAGE 03 STATE 231069

THIS PROCEDURE IS AN INTERIM ARRANGEMENT BY WHICH NORMAL LIFTINGS COULD CONTINUE WHILE AN ATTEMPT IS MADE TO SETTLE DIFFERENCES. UNDER THE FOREIGN EXCHANGE CONTROL SYSTEM HOWEVER, THESE DEPOSITS ARE NOT DUE ON THE DATE OF LIFTING. THUS THEY REPRESENT DEPOSITS MADE IN ADVANCE OF THEIR DUE DATE.

"WE PROPOSE THAT THESE ADVANCE DEPOSITS, WHICH HAVE

ALREADY BEEN MADE, BE REGARDED FOR THE PERIOD IN WHICH THEY REMAIN ADVANCE PAYMENTS (WHICH IS TO BE TREATED AS 120 DAYS FROM AUGUST 25) AS REDUCING THE AMOUNT CURRENTLY IN ARREARS, DECREASING THE BALANCE IN THAT ACCOUNT BY APPROXIMATELY ONE-HALF.

"IN ORDER TO REACH A MUTUAL UNDERSTANDING, WE FURTHER PROPOSE THAT THE DIFFERENCE BETWEEN THE PRESENT BALANCE IN THE SPECIAL ACCOUNT AND THE ADVANCE DEPOSITS MENTIONED ABOVE BE PLACED IN AN ESCROW ACCOUNT, UNDER THE SOLE CONTROL OF NEITHER THE GOVERNMENT NOR THE COMPANY, TO BE PAID OVER TO THE PARTY FOUND, UPON A RESOLUTION OF OUTSTANDING DIFFERENCES, TO BE ENTITLED TO IT.

"WE FURTHER PROPOSE THAT ECUADORIAN GULF NOW WOULD AGREE TO RESUME MAKING ITS DEPOSITS INTO THE FOREIGN EXCHANGE CONTROL SYSTEM BEGINNING WITH THE NEXT DEPOSIT WHICH IS DUE SEPTEMBER 27, 1976. EACH SUBSEQUENT DEPOSIT WILL BE MADE AS IT BECOMES DUE. THE INCAUTATION PRICE OF CARGOES LIFTED BETWEEN AUGUST 25, 1976, AND THE PRESENT WOULD UNDER THIS PROPOSAL BE DEPOSITED ON THEIR RESPECTIVE DUE DATES ACCORDING TO THE PROVISIONS OF PRESENT REGULATIONS GOVERNING SUCH DEPOSITS.

"THIS PROPOSAL WOULD ACCOMPLISH THE FOLLOWING:

"(1) RESUMPTION BY ECUADORIAN GULF OF ITS DEPOSITS AS THEY BECOME DUE. ACCORDINGLY, THE SPECIAL ACCOUNT (WHOSE BALANCE WILL BE RESTRUCTURED AS THE ESCROW ACCOUNT) WOULD, AS OF THE DATE ON WHICH THE GOVERNMENT ACCEPTS THIS PROPOSAL, NO LONGER INCREASE IN SIZE. RATHER THAN EXPANDING TO SOME \$59 MILLION, IT WOULD REMAIN AT ITS PRESENT LEVEL, SUBJECT TO
CONFIDENTIAL

CONFIDENTIAL

PAGE 04 STATE 231069

"(2) IMMEDIATE BUT PROVISIONAL REDUCTION OF THE BALANCE IN THE ACCOUNT BY APPROXIMATELY ONE-HALF, AS STATED ABOVE, AND

"(3) CONTINUATION OF LIFTINGS BY ECUADORIAN GULF IN A ROUTINE MANNER.

"IN THE VIEW OF THE COMPANY, THE BALANCE OF THE SPECIAL (ESCROW) ACCOUNT WOULD BE COMMENSURATE WITH UNPAID OBLIGATIONS CURRENTLY OWED BY CEPE AND THE GOVERNMENT OF ECUADOR TO THE COMPANY, BUT THE COMPANY ACKNOWLEDGES THAT THE BALANCE OF UNPAID OBLIGATIONS IS A SUBJECT FOR MUTUAL EVALUATION AND NEGOTIATION."

END OF TEXT.

5. LUCAS AND WYCHE REPLIED: (A) THEY WOULD MAKE CLEAR THAT SETTLEMENT IS WITH CEPE AND CONSIDER DELETION OF SPECIFICATION OF TERMS, THOUGH THEY THOUGHT SUCH SPECIFICATION MIGHT BE HELPFUL AND THAT AGREEMENT WITH CEPE CAN BE REACHED. (B) SO AS NOT TO CONTEST DEPT APPROACH, THOUGH THEY DID NOT UNEQUIVOCALLY ACCEPT OUR ANALYSIS. (C) CONFIRMING THAT INDEED GULF DOES CONTEMPLATE THIS VERY MAJOR CONCESSION AND THAT SUGGESTIONS FOR HIGHLIGHTING IT ARE HELPFUL. (D) WHILE GULF WOULD CONSIDER AN ESCROW ACCOUNT ANEW, THEY WERE TROUBLED ABOUT THE PROSPECT OF LOSING CONTROL OF THE FUNDS IN THE EVENT NO AGREEMENT WITH THE GOE IS REACHED. (DEPUTY LEGAL ADVISER SCHWEBEL RESPONDED THAT WE BELIEVED SUCH A FRESH ELEMENT NOW IS HIGHLY DESIRABLE, AT LEAST OPTICALLY; THAT GULF'S RISK WAS NOT GREAT, SINCE GOE NOT LIKELY TO ACCEPT AN ESCROW ACCOUNT; THAT, IF IT DID, GULF WOULD STILL RETAIN THE LEVERAGE OF THOSE FUNDS BEING WITHHELD FROM GOE CONTROL; AND THAT IT WAS IMPORTANT THAT GOE BE ASSURED THAT GULF HAD NO INTENTION OF APPLYING THE FUNDS IN THE SPECIAL ACCOUNT TO PURPOSE OUTSIDE THE ECUADORIAN COMPLEX.) WHILE LUCAS SEEMED TO SEE FORCE IN THESE POINTS, ESPECIALLY LAST, WYCHE INDICATED HE DID NOT THINK GULF WOULD ESPOUSE AN CONFIDENTIAL

CONFIDENTIAL

PAGE 05 STATE 231069

ESCROW ACCOUNT NOW, BUT MIGHT LATER. IN ANY EVENT, THEY BELIEVED GULF WOULD INDICATE THAT SPECIAL ACCOUNT WOULD BE APPLIED ONLY TO ECUADORIAN COMPLEX BUT AGREED TO REOPEN IDEA OF AN ESCROW ACCOUNT WITH HIGHER GULF AUTHORITY. (E) AGREE WITH DEPT'S SUGGESTION (F) BELIEVED DEPT PROBABLY RIGHT AND INCLINED TO RECOMMEND OMISSION OF ANNEX 2.

6. GULF WILL PASS US THE REVISED TEXT OF ITS PROPOSALS. GULF COURIER WILL PRESENT THAT TEXT TO YOU SEPT 18 AND DELIVERY TO SUPREME COUNCIL PLANNED FOR SEPT 20. GULF BELIEVES IT BEST TO PROCEED THIS WAY IN HOPE IT WILL GET TO COUNCIL FOR CONSIDERATION BEFORE VARGAS TORPEDOES GULF'S PROPOSALS.

7. GULF INDICATED THAT IT WOULD BE MOST HELPFUL IF, SOME HOURS AFTER DELIVERY OF ITS PROPOSALS, AMBASSADOR WOULD PRESS GOE TO GIVE THEM SERIOUS CONSIDERATION. WE UNDERTOOK TO CONSIDER THIS POSSIBILITY WHEN WE HAVE THE FINAL TEXT OF THEIR PROPOSALS. YOUR VIEWS ARE INVITED. ROBINSON

CONFIDENTIAL

NNN

Message Attributes

Automatic Decaptioning: X
Capture Date: 01 JAN 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: PETROLEUM INDUSTRY, NEGOTIATIONS
Control Number: n/a
Copy: SINGLE
Draft Date: 17 SEP 1976
Decaption Date: 01 JAN 1960
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Authority: ShawDG
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 28 MAY 2004
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1976STATE231069
Document Source: CORE
Document Unique ID: 00
Drafter: SMSCHWEBEL:CDJ
Enclosure: n/a
Executive Order: GS
Errors: N/A
Film Number: D760352-0262
From: STATE
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1976/newtext/t19760946/aaaabnrvtel
Line Count: 221
Locator: TEXT ON-LINE, ON MICROFILM
Office: ORIGIN L
Original Classification: CONFIDENTIAL
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 5
Previous Channel Indicators: n/a
Previous Classification: CONFIDENTIAL
Previous Handling Restrictions: n/a
Reference: 76 STATE 229886, 76 QUITO 6683
Review Action: RELEASED, APPROVED
Review Authority: ShawDG
Review Comment: n/a
Review Content Flags:
Review Date: 20 JUL 2004
Review Event:
Review Exemptions: n/a
Review History: RELEASED <20 JUL 2004 by SmithRJ>; APPROVED <04 NOV 2004 by ShawDG>
Review Markings:

Margaret P. Grafeld
Declassified/Released
US Department of State
EO Systematic Review
04 MAY 2006

Review Media Identifier:
Review Referrals: n/a
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
Secure: OPEN
Status: NATIVE
Subject: GOE GULF OIL DISPUTE
TAGS: ENRG, PFOR, EINV, EC, US, GULF OIL CO
To: QUITO
Type: TE
Markings: Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 04 MAY 2006